

BSE Code: 533266 NSE Code: TECPRO Reuters Code: TPSSLB0 Bloomberg Code: TPRO.IN

Tecpro System Ltd (Tecpro) a renowned name in coal, ash handling as well as in balance of plant (BoP) and engineering, procurement and construction (EPC) space, well-poised to clock impressive growth backed by escalation prospective of over ₹1,300 billion in BoP space during the ensuing five years. The company caters to various sectors- cement, steel and mainly power which contributes large part to revenue. Further, the book-bill-ratio of 2.2x of its FY'11 revenues ensures sound earning visibility over the next 18-24 months. In addition, the company has adopted inorganic way to widen its product portfolio in BoP space.

Investor's Rationale

Revenue visibility intact backed by book-bill ratio of 2.2x of its FY'11 revenues: Tecpro is set to clock impressive growth owing to strong order book of ₹46 billion executable over the next two years. The company's order book has grown from ₹1,000 million in FY'08 to over ₹46 billion during Q3FY'12, translating into the book-bill ratio of 2.2x of its FY'11 revenues. Thus robust order book ensures earning visibility over the next 18-24 months.

Opportunity canvas is getting bigger in BoP space: With the 12th five year plan targeting a power capacity addition of 76,500 MW, the total escalation prospective in BoP segment stood over ₹1,300 billion over the entire plan. BoP contributes over 40% of the total cost, this provides huge business potential for material handling and BoP players like Tecpro over the next five years.

Moving on higher path of ladder: Tecpro, leveraging on its in-house capabilities in coal handling & ash handling, has taken a step further on the ladder from being a material handling player to an EPC player in the BoP space in thermal power generation by forming a consortium with established players.

Inorganic way to offer complete BoP package: To bridge the gap in its offering under BoP services, Tecpro has taken an inorganic way to expand its product portfolio. Tecpro has recently acquired Eversun Energy Private Limited (a Pune-based company that is involved in EPC work of solar photovoltaic systems for power generation). Further, it has also acquired strategic stake in Ambika Projects (India) Pvt. Ltd, a Chennai based company engaged into water and waste water treatment solutions. It has presence in Chennai, Mumbai and Sultanate of Oman.

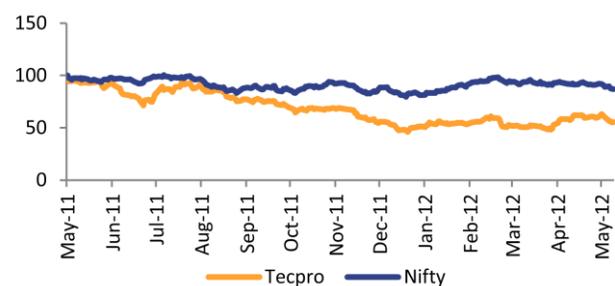
Market Data

Rating	BUY
CMP (₹)	175
Target (₹)	245
Potential Upside	~40%
Duration	Long Term
52 week H/L (₹)	308.5/143.1
All time High (₹)	453.8
Decline from 52WH (%)	43.3
Rise from 52WL (%)	22.3
Beta	0.7
Mkt. Cap (₹ mn)	8,832.9
Enterprise Val (₹ mn)	13,309.9

Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹bn)	14.5	19.7	25.0	31.7
Net Profit(₹bn)	1.1	1.4	1.5	2.0
Share Capital	0.4	0.5	0.5	0.5
EPS (₹)	24.8	27.0	29.9	39.4
P/E (x)	7.1	6.5	5.9	4.4
P/BV (x)	2.2	1.3	1.1	1.0
EV/EBITDA (x)	4.9	4.1	4.4	3.8
ROE (%)	31.1	20.1	19.3	21.6
ROCE (%)	26.1	22.2	20.8	22.6

One year Price Chart



Shareholding Pattern

	Mar'12	Dec'11	Diff.
Promoters	52.63	52.63	-
FII	1.46	2.83	(1.37)
DII	18.62	18.55	0.07
Others	27.29	25.99	1.30

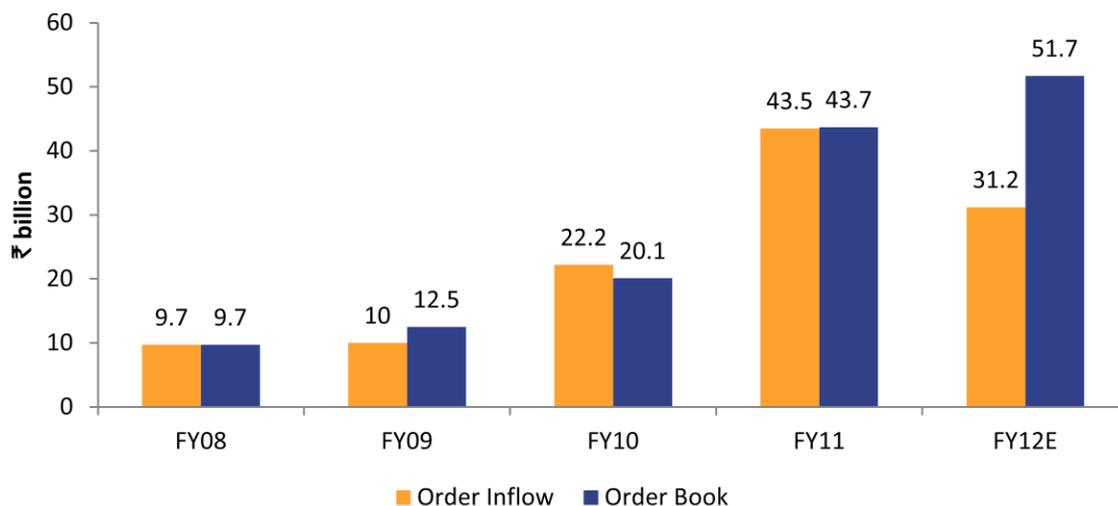


Stellar book-bill ratio of 2.2x of its FY'11 revenues would ensure revenue visibility for next 18-24 months.

Revenue visibility intact backed by robust order book

Over last few years the company has seen significant rise in order intake on account of huge investments in core sector. The company's order book has grown from ₹1,000 million in FY'08 to over ₹46 billion during Q3FY'12, translating into the book-bill ratio of 2.2x of its FY'11 revenues. Thus robust order book ensures revenue visibility over the next 18-24 months. The fresh order intake during the last quarter stood over ₹7.7 billion mainly led by power and cement sector, while the same for FY'12 stood over ₹19.5 billion. The order book comprises of BoP, coal handling (CHP) & ash handling (AHP) projects. BoP orders are generally executable within 24- 30 months whereas CHP & AHP take 12-24 months to execute .BoP segment is expected to drive the revenue growth in next two years. We believe that Tecpro is well-positioned to capture the large BoP orders on the back of strong foothold in material handling, technical tie-ups/collaborations to fill the gap in operational activities, backward integration to strengthen the in-house capabilities etc. In addition, Tecpro is already a prequalified bidder in the NTPC package tender for the 660 MW series. For some coal and ash handling packages, the management expects to get some orders in the near future.

Book-bill ratio ~ 2.2x of its FY'11 revenue



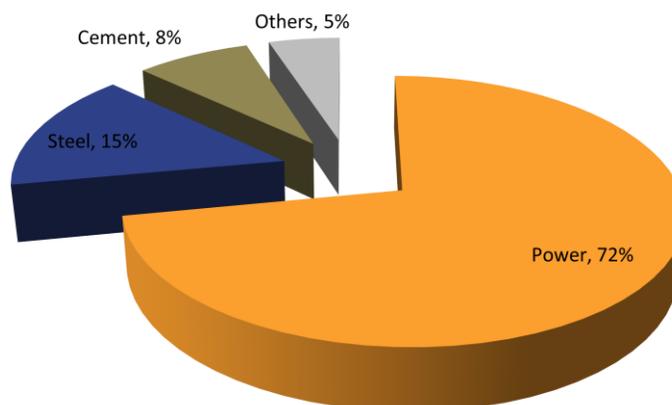
Further the company is the L1 bidder for the projects worth over ₹10 billion. Also, company has submitted bid for ₹150 billion orders, of which 70% are likely to be awarded in next 3-6 months. Further, the company has secured 3 average tick in Engineering Procurement and Construction (EPC) orders worth over ₹5.4 billion. It is expected that, the tecpro would end FY'12 with an order book in excess of 50 billion mark for the first time in company's history. Going into the next financial year, the order pipeline is encouraging. NTPC is likely to order out the balance 660 MW series and also the new 800 MW series. In addition to this, the State Electricity Boards are looking at augmenting their capacity providing good business opportunities in the Balance of the Plant segment. It is expected that the company would post 25-30% growth in its order intake for FY'13E.



Power segment contributes over 70% to the companies order book, followed by orders from steel sector.

BoP space opens up an opportunity of over ₹1,300 billion during 12th five year plan.

Order book mix



Opportunity canvas is getting bigger in BoP space

With the 12th five year plan targeting a power capacity addition of 76,500 MW, primarily from coal based capacity during the next five years, this would create an annual BoP opportunity of over ₹1,300 billion over the entire plan. BoP accounts over 40% of the total cost, Tecpro would be a major beneficiary as the company has gained leadership position in material handling. Further, the company intends to set up 100% subsidiary in Indonesia to tap opportunities available in the bulk material handling and mining sector there. Although BTG orders for the aforementioned capacity addition plan have already been finalized, the BoP tendering has not yet begun; this provides huge business potential of material handling and BoP players over the next five years. We believe the government is taking concerted action to bridge the gap in power space and recently in the Budget 2012, government has decided to provide some tax benefits to power sector and proposed to scrap customs duty on imported coal and a concessional CVD of 1% to steam coal for a period of two years till 31 March 2014. This step is estimated to bring down electricity generation cost by 12 paise per unit. Also, an improving economic scenario, continued government focus on infrastructure investment and pick-up in private capex augurs well for companies providing material handling solutions for the core industries.

BoP Package	XIth Five Year Plan	XIIth Five Year Plan
Coal handling plant	54	148
Ash handling plant	56	148
Dimineralised water plant	58	211
Cooling towers	111	218
Chimneys	79	77
Fuel oil system	56	148
Pre treatment plant	61	160



Technical Tie-up to bridge the gaps

Over the years, the company has entered in as many as 12 technical collaboration and license agreements with international players such as FAM Magdeburger Forderanlagen und Baumaschinen GmbH, Germany, Maschinenfabrik Liezen und Giesserei GmbH, Austria, PEYTEC Material Handling GmbH, Austria, and Won Duck Industrial Machinery Company Limited, Korea. The management is rigourously working to enhance its technical capabilities and these technical collaboration is a step on the right paddle. These tie-ups provide the company with the competitive edge and reduce R&D costs and time to market for new technologies. Further, the Tecpro has able to cement its technical credential and has the access to advanced technologies.

Tecpro has entered into over 12 technical collaborations to enhance its capabilities.

Technical tie-ups

MNC	Technology Shared
FAM Magdeburger Forderanlagen und Baumaschinen GmbH, Germany	Sale, manufacture and service of crushers, rollers and grinders
Hein, Lehmann, Trenn und Fordertechnik GmbH, Germany	Designing of screeners
Advanced Conveyor Technologies (AC-Tek)	Design, Supply and Installation of an overland conveyor
Maschinenfabrik Liezen Und Giesserei GmbH	Designing of Crushers
PEYTEC Material Handling GmbH, Siebtechnik GmbH, Germany	Designing of screeners
Krusnohorske Stojirny Komorany	Supply of paddler feeder, stacker reclaimer and twin rotor sizes
MVW Lechtenberg, Projektentwicklungs und Beteiligungsgesellschaft GMBH	Development of secondary fuel production and biomass handling projects
GEA EGI contracting/ Engineering Co. Ltd	High concentration slurry disposal system
Xiamen Longking bulk Materials Science and Engineering Ltd	Dry bottom handling, pneumatic conveying, fly ash handling and coal mill reject handling system
Nanjing Triumph Kaineng Enviornment and Energy Co. limited	Waste Heat Recovery Power Projects
Pneuplan Oy Finland	Pneumatic extraction and conveying system Technology
Won Duck Industrial Machinery Co. Ltd	single toggle jaw crushers



Tecpro has been moving on higher ladder, banking on its in house coal & ash handling capabilities; it has established itself as a BoP player.

It's expected that BoP business would augurs well for Tecpro.

Moving on higher path to become BoP players

Tecpro Systems is an establish name in coal and ash handling with market share of over 20% and over 15% based on orders placed during the Eleventh Plan period. Leveraging in its in-house capabilities of coal handling & ash handling, the company has moved on high path of the ladder from being a material handling player to an EPC player in the BoP space in thermal power generation by forming a consortium with established players such as VA Tech Wabag for water treatment systems and Gammon India for cooling tower packages.

The competency in bidding for BoP project can be determined from in house manufacturing of different components of BoP package, Tecpro is leader in coal handling and ash handling manufacturing, which comprises about 40% of total BoP cost. It is also exploring for other BoP packages including chimneys, cooling towers, civil work etc, through either organic or inorganic route. Moving a step closer, Tecpro Systems has acquired Ambika Projects (India) Pvt. Ltd, a Chennai based company engaged into water and waste water treatment solutions. It has presence in Chennai, Mumbai and Sultanate of Oman. In addition, Tecpro has the flexibility to operate in the full-BoP project (via consortium route) as well as the individual BoP packages space (for bulk material and ash handling components).

Major projects details

Client	Product
BHEL	Raw material handling plant
Ultratech Cement	Material handling plant
Tata Project	Complete stock house
Rawan Cement	Engineering Supply and erection of waste heat recovery power projects
Rajashree Cement	Engineering Supply and erection of waste heat recovery power projects
Shree Cement	Engineering Supply and erection of waste heat recovery power projects
NTPC	Coal Handling Plant
Rayalseema Thermal Power Project Stage IV	BoP order
Kakatiya Thermal Power Project-Stage II	BoP order
Kohinoor power Private limited	EPC
SAIL	Raw material handling plant
TANGEDCO	Raw material handling plant
GSECL	Raw material handling plant

Further, it is expected that BoP business will propel Tecpro's future growth given the strong escalation prospective lying ahead in this segment and its strong capability & leadership position in various packages in BOP Projects.



Tecpro has adopted inorganic way to enhanced its product portfolio in BoP space.

Inorganic way to offer complete BoP package

Tecpro recently acquired Eversun Energy Private Limited (a Pune-based company that is involved in EPC work of solar photovoltaic systems for power generation). This acquisition would help the company move up the value chain. Tecpro has inhouse manufacturing for CHP and AHP (~35-40% of the BoP order) and outsources other components to outside vendors or consortium partners. With the acquisition of the Eversun Energy Private Limited, Tecpro intends to increase the share of in-house manufacturing compared with outsourcing of components in its BoP segment. Eversun Energy Private Limited is engaged in the design, engineering, procurement, integration, installation and commissioning (EPC) of solar photovoltaic systems for power generation for utilities and industries on a turnkey basis for captive power generation or export of power to utilities. It also undertakes post sales services and AMC for solar photovoltaic projects. BGR Energy, Essar, Vedanta, Shriram EPC etc.

Tecpro Systems also acquired Ambika Projects (India) Pvt. Ltd, a Chennai based company engaged into water and waste water treatment solutions. It has presence in Chennai, Mumbai and Sultanate of Oman. Client portfolio comprises VSNL, SAIL, JSW, BGR Energy, Essar, Vedanta, Shriram EPC etc. Presently, Tecpro will continue outsourcing water treatment portion in bidding larger BoP projects. However, the company is banking on Ambika Projects to develop its presence in the water treatment (which forms 10-12% of BoP) so that it can increase its in-house manufacturing scope in BoP projects. Further, the company is also entering into BoP related civil works to improve backward integration level thereby improving the scope of its in-house activities.

Recent foray into waste heat recovery segment

Tecpro recently entered into an exclusive collaboration with Nanjing Triumph Kaineng Environment and Energy Company Limited, China (NTK), for supply of boilers, turbine and generators (BTG). The specialized BTG would be used in Waste Heat Recovery plants (WHR) set up by Tecpro for its customers in the cement sector. As per the agreement, NTK would supply BTG portion of the order, while complete installation (including civil, electrical works, other auxiliaries and erection) would be completed by Tecpro. In value terms, Tecpro's share in the WHR project would be ~55%, while the balance 45% represents imported BTG. Until date, Tecpro has booked three orders worth Rs2.2bn in the WHR segment.

Marquee customer profile

Owing to its strong execution capabilities, Tecpro Systems over the year has built up a repo among its clientele and has won number of repeated orders for coal handling & ash handling plant from core industries like Power, Steel and Cement. Further, the company on regular basis has added strong brand under its customer portfolio. The marquee customers list includes JSPL, Thermax, NTPC, Reliance Energy, Grasim, ACC, Tata Steel, Punj Llyod, Lanco Infratech, Adani Power, Madhcon Ltd to name a few. All these clients have strong investment in pipeline, which would likely to benefit the company.

Tecpro carries a marquee customer profile and the list includes names like NTPC, JSPL, ACC, Grasim, etc.



Balance Sheet (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	442.2	504.7	504.7	504.7
Reserve and surplus	3,079.6	6,278.8	7,335.5	8,728.3
Net Worth	3,521.8	6,783.6	7,840.2	9,233.0
Loan Funds	4,867.9	7,468.5	7,590.0	7,650.0
Capital Employed	8,389.7	14,252.1	15,430.2	16,883.0
Gross fixed assets	1,396.8	1,608.6	1,727.8	2,073.4
Less: accumulated depreciation	188.4	280.5	408.9	570.1
Net Fixed Assets	1,208.3	1,328.1	1,318.9	1,503.3
Capital Work in Progress	110.1	283.7	300.0	300.0
Investment	94.2	369.6	370.0	370.0
Net Deferred tax assets	11.9	25.8	30.0	30.0
Net Current Assets	6,965.2	12,244.8	13,411.3	14,679.7
Capital Deployed	8,389.7	14,252.1	15,430.2	16,883.0

Profit & Loss Account (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Net Sales	14,549.4	19,684.3	24,999.1	31,748.8
Expenses	12,287.4	16,422.3	21,668.5	27,768.2
EBITDA	2,262.0	3,262.0	3,330.6	3,980.6
<i>EBITDA Margin %</i>	<i>15.5</i>	<i>16.6</i>	<i>13.3</i>	<i>12.5</i>
Depreciation	73.3	102.8	128.4	161.2
EBIT	2,188.7	3,159.2	3,202.2	3,819.4
Interest	714.3	1,231.0	1,129.7	1,058.3
Other Income	209.0	172.0	250.0	300.0
Profit Before Tax	1,683.5	2,100.2	2,322.5	3,061.1
Tax	587.1	738.0	812.9	1,071.4
Profit after Tax	1,096.4	1,362.3	1,509.6	1,989.7
<i>NPM %</i>	<i>7.5</i>	<i>6.9</i>	<i>6.0</i>	<i>6.3</i>

Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	15.5	16.6	13.3	12.5
NPM (%)	7.5	6.9	6.0	6.3
ROCE (%)	26.1	22.2	20.8	22.6
ROE (%)	31.1	20.1	19.3	21.6
ROA (%)	21.6	18.2	17.1	18.1
EPS (₹)	24.8	27.0	29.9	39.4
P/E (x)	7.1	6.5	5.9	4.4
BVPS (₹)	79.6	134.4	155.3	182.9
P/BVPS (x)	2.2	1.3	1.1	1.0
EV/Operating Income(x)	0.8	0.7	0.6	0.5
EV/EBITDA (x)	4.9	4.1	4.4	3.8

Valuation and view

Tecpro at the CMP of ₹175 is trading at P/E of 4.4x of its FY'13E EPS of ₹39.4. Over the past few years, the company has grown at a phenomenal pace, given the entry into the booming BOP-EPC space, the leadership position it enjoys in coal and ash handling coupled with strong execution capabilities would ensure the revenue growth for the company. Further, the book-bill ratio of 2.2x of its FY'11 revenue would augurs well of the company. Tecpro appears to be best placed among peers to bag BoP orders, given its past experience in coal and ash handling.



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